BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Joint Application of Wisconsin Electric Power Company and Wisconsin Gas LLC both d/b/a We Energies, to Conduct Biennial Review of Cost and Rates – Test year 2015	Docket No. 05-UR-107

SURREBUTTAL TESTIMONY OF STEVEN J. VOCK
FOR CHARTER STEEL, INC.

September 22, 2014

Q. Please state your name and business address.

A. My name is Steven J. Vock. My business address is The Titus Group (Titus Energy) 1200 N. Mayfair Road, Suite 270, Milwaukee, Wisconsin 53226.

Q. Are you the same Steven J. Vock who submitted Direct and Rebuttal Testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your Surrebuttal Testimony?

A. I am responding to the Rebuttal Testimony submitted by Mr. Eric Rogers of WEPCO.

Q. In Mr. Rogers' rebuttal testimony (Rebuttal – WEPCO/WG – Rogers, page 35, line 15) he was asked if WEPCO has worked with Charter Steel to consider and analyze rate designs that best fit Charter Steel's specific power requirements and usage patterns. Are you aware of these conversations and the outcome of these conversations?

A. We agree that Charter Steel has worked with WEPCO to select the rate that will best serve its needs from within the PSCW approved rates. However, these rates are not competitive with other utilities both within and outside of Wisconsin. Other Wisconsin industrial customers outside of WEPCO have access to rates lower than the state average from the rates pre-approved by the PSCW.

My direct testimony referenced by Mr. Rogers demonstrates that, on average, Wisconsin's industrial electric rates are substantially higher than in the peer states that Wisconsin competes with every day to drive our economy and retain and attract good paying manufacturing jobs. The problem is that Charter Steel's electric power costs on WEPCO's best available rate are substantially more than it pays at its facilities in Ohio or Illinois, more than other large companies are paying in Wisconsin's other service territories and significantly more than Charter Steel's competitors are paying other utilities in other states. This cost differential puts Charter Steel's Wisconsin facility at a significant competitive cost disadvantage when participating in the North American steel market.

I cannot overemphasize the importance of power costs to Charter Steel - as electricity is Charter Steel's 2nd highest cost and their largest non pass through cost. Electricity is higher than labor costs and is exceeded only by the cost of scrap metal that is converted into useful products using electricity (Charter Steel is Wisconsin's largest recycler). The steel industry accepts commodity price adjustments for raw scrap metal material, but not for electricity, since electricity prices vary from state to state and utility to utility. This power pricing inequality helps define "winners" and "losers." Currently, Charter Steel is operating at a significant cost disadvantage by operating in a high-priced state, served by a high-priced utility within that state.

In my direct testimony, I stated "I researched the power pricing for each of Charter Steel's major competitors and nearly every one of Charter Steel's competitors is provided with pricing near wholesale pricing levels" (Direct-CS-Vock-5). Mr. Rogers response attemptes to draw attention to the fact that Charter Steel's cost is lower than Wisconsin's average. This misdirection does not address the problem. WEPCO is not competitive with utilities in peer manufacturing states and Charter Steel's cost for power is not competitive with the rates Charter Steel's competitors are charged by WEPCO's peer utilities in those states. Figure One shows the results of my research noted in my direct testimony.

Figure One

<table>
<tr><th>Company</th><th>Location</th><th>Local Distribution Utility</th><th>Rate</th><th>Estimated Cost Below Charter-Saukville</th></tr>
<tr><td>Charter Steel</td><td>Saukville, WI</td><td>We Energies</td><td>CpFN w/ CST</td><td></td></tr>
<tr><td>Charter Steel</td><td>Cleveland, Ohio</td><td>First Energy</td><td>GT</td><td>23%</td></tr>
<tr><td>Dura-Bar</td><td>Woodstock, Illinois</td><td>ComEd</td><td>N/A</td><td>24%</td></tr>
<tr><th colspan="5">Regulated Rates</th></tr>
<tr><td>Nucor Corporation</td><td>Norfolk, NE</td><td>Nebraska Public Power</td><td>LIS</td><td>25% (Firm Power)</td></tr>
<tr><td>ArcelorMittal</td><td>Georgetown, SC</td><td>Duke Progress</td><td>LGS</td><td>29%</td></tr>
<tr><td>ArcelorMittal</td><td>Chicago, IL</td><td>NIPSCO</td><td>633</td><td>24%</td></tr>
<tr><td>Evraz</td><td>Pueblo, CO</td><td>Public Service Company of Colorado</td><td>TG</td><td>30%</td></tr>
<tr><td>Gerdau Corporation</td><td>Beaumont, TX</td><td>Entergy</td><td>LIPS-TOD</td><td>22%</td></tr>
<tr><td>Steel Dynamics Inc.</td><td>Pittsboro, IN</td><td>Indiana Michigan Power Company</td><td>Confidential</td><td>(Trade Secret)</td></tr>
<tr><th colspan="5">Wholesale Access</th></tr>
<tr><td>Republic Steel</td><td>Lorain, OH</td><td>Ohio Edison</td><td rowspan="8">N/A</td><td rowspan="8">Typically
20 to 30%</td></tr>
<tr><td>Republic Steel</td><td>Canton, OH</td><td>Ohio Power</td></tr>
<tr><td>Keystone Steel & Wire Co.</td><td>Peoria, IL</td><td>Ameren</td></tr>
<tr><td>Nucor Corporation</td><td>Darlington, SC</td><td>Santee Cooper Coop</td></tr>
<tr><th colspan="3">Wholesale Market Participant</th></tr>
<tr><td>ArcelorMittal</td><td>Ontario Canada</td><td>N/A</td></tr>
<tr><td>Ivaco</td><td>Ontario, Canada</td><td>N/A</td></tr>
</table>

As mentioned in my Direct Testimony, the competitor costs in Figure 1 are projected using Charter Steel's load profile. Based on my research, by operating in WEPCO's territory, Charter Steel is forced to pay 20% to 30% more for power than their competitors and their out-of-state facilities in other jurisdictions.

Q. In Mr. Rogers rebuttal testimony (Rebuttal – WEPCO/WG – Rogers, page 36, line 11) he was asked if a small portion of your direct testimony presented "the full story" of industrial price comparison. He responded "no" and then described how the Company enjoys a reliable electric system. Is your testimony regarding the competitiveness of the Company's industrial electric rates "the full story" and how does your testimony relate to Charter Steel's current electric rate?

A. Mr. Rogers shares WEPCO's standard response to complaints about high industrial rates, stating that the Company has made "major investments to improve the reliability of its generation and distribution system" (Rebuttal-WEPCO/WG-Rogers-36, line 13) This is often followed by another line of reasoning, "These are investments that a number of our peer utilities have not yet made but will nevertheless need to make in the future. Once other utilities make these investments we expect electric rates to be more comparable." (MK2-2, David Ackerman).

However, Mr. Rogers also states that NERC projects excess planning reserve margins in the Midwest exceeding 16% through 2022, well above MISO's 14.2% requirement. (1 – MMSD/Inter – 4d). This testimony does not suggest Midwest states are in dire need of excess capacity or will be making "catch up" investments any time soon. WEPCO's current generation capacity utilization is well below expectations and national averages and its system reserve capacity far exceeds all reliability requirements in MISO.

WEPCO has introduced no evidence into the record to show that other states or utilities are actually planning to invest heavily in capacity or system improvements at a rate that would cause their industrial rates to rise to our level. We see no proof that other states have such high need for additional capacity or are racing to equalize electric power rates with Wisconsin to make themselves less competitive in a national market.

Even if other utilities tried to match WEPCO's uncompetitive rates, we believe they will have difficulty catching up. In the Wisconsin Energy Company 2013 annual report (2-CS-RFP-2), WEPCO plans to spend an additional $3.8 billion in distribution improvements to what they refer to as "the most reliable utility in the United States." (Rebuttal – WEPCO/WG – Rogers – 36). WEPCO has no plans to slow down and let utilities in other states catch up. While other utilities may notice WEPCO's revenue level and profitability, their state's decision makers have shown no propensity to support large industrial rate hikes.

In fact, other states regularly, through regulation or legislation, offer highly competitive electric rates to large manufacturers in a concerted effort to support their economies, create and preserve high paying manufacturing jobs and encourage manufacturers to invest and thrive in their state. Just last week, the State of Nevada created a special tariff to incent Tesla Motors to locate its Lithium battery manufacturing facility in the state. In June of this year, the Public Utilities Commission of Ohio approved a special tariff authorizing a rate of 5 cents per kWh to keep Warren Steel operating in Ohio. We know of other efforts by other states to take proactive steps to support their largest industries through lower power rates. Yet we see no movement in this direction in Wisconsin.

With high efficiency appliances, LED lighting, lower solar PV cost, demand response programs and other efficiency improvements, we see utilities projecting low or no load growth. WEPCO understands this and is trying to lock in higher fixed costs in this rate case to mitigate the problem. But even if other jurisdictions feel a pressing need to add generation capacity we see no evidence they will follow the Power the Future path.

In my view, the "full story" should include disclosure of how WEPCO used a perceived need for additional reliability as a vehicle to massively increase their profits. A key part of Power the Future was the Elm Road Generating Station ("ERGS"). This plant turned out to be extremely expensive and underutilized. According to WEPCO's 2013 PSCW annual report, ERGS ran at an overall capacity factor of 25%, producing electricity at an "all-in" cost of 14.76 cents per kWh, which exceeds WEPCO's average retail price of electricity. Yet, ratepayers were obligated for lease payments exceeding $286 million dollars, delivering a 12.7% rate of return to WEPCO. We encourage the PSCW to review WEPCO's capacity resources and the projected system demand to determine what assets remain "used and useful."

To maximize profit over the past decade, WEPCO sold depreciated assets and built new assets while locking in excessive returns and gaining recovery of nearly all expenses. It started with the sale of the Point Beach Nuclear Plant ("PBNP"). According to WEPCO's 2006 PSCW annual report, PBNP generated power for $28 per MWh, including depreciation and ROE. Today, WEPCO is purchasing all of PBNP's output for $45 per MWh while selling excess energy to MISO at $31 per MWh. At the time of the sale, WIEG noted, "We Energies is looking for a breathtaking 30 percent increase over its current rates." (Docket No. 6630-EI-113, PSC REF#:78271, Page 1). An astounding thirty percent increase in one move. But that was just the start.

WEPCO proposed a lease finance scheme for PTF that virtually eliminated WEPCO's risk and held the ratepayers liable for practically everything that has gone wrong, especially with the ERGS. The ERGS construction budget nearly doubled, but WEPCO passed all cost overruns to ratepayers using the lease agreement's force majeure provision despite a PSCW invoked 5% cost increase collar. Not only were all overruns approved, but the lease agreement requires ratepayers to finance those overruns, including a healthy 12.7% return on the equity. ERGS was quickly commissioned while WEPCO battled in court with the project's EPC contractor. Soon after, ERGS was unavailable due to a scaling problem, but ratepayers continued to pay. In the November 10, 2003 Order for Docket 05-CE-130, page 30, the Commission stated, "…WEPCO needs additional baseload capacity within the next decade, in which generating stations must operate between 70 and 90 percent capacity factors." According to WEPCO's 2014 PSCW Annual Report, ERGS ran with a 25% capacity factor, but ratepayers continue to pay. Now, WEPCO is seeking recovery to add fuel flexibility to ERGS, a feature that apparently escaped them while building baseload capacity for the next 50 years. In parallel, the Commission approved recovery for litigation settlements and WEPCO now returns to the Commission in this rate case seeking more recovery.

The Commission approved ERGS based primarily on WEPCO's aggressive load growth projections. Part of these projections included 200 MW of new municipal wholesale capacity sales (Page 26 of the November 10, 2003 Order). WEPCO's annual reports show total capacity sales of 253 MW in 2006 and 298 MW in 2014. Where are the other 155 MW's of wholesale capacity sales WEPCO used to justify ERGS? This difference represents a significant portion of WEPCO's share of ERGS's capacity. We urge the Commission to evaluate ERGS and compare the promises with the results. Failure to produce promised capacity sales that were used to justify the investment is the responsibility of WEPCO. Design and litigation costs should be the responsibility of the utility, not rate payers. Operational issues are the responsibility of WEPCO. WEPCO's ratepayers should not be held liable for WEPCO's failure to perform or the utility's rightful operational risks.

WEPCO has not been held accountable for any of these problems, in part, because of the favorable terms of the lease agreement. However, the Commission has the ability to work around this obstacle. In the November 10, 2003 Order for Docket 05-CE-130, the Commission claims the ability to protect ratepayers in two sections. On Page 34, the Commission stated, "The plant owner acts as a passive investor and the utility, which will operate and maintain the plant, remains a regulated entity under the Commission's jurisdiction. This can provide ratepayers with protections similar to those afforded under a rate-based paradigm. Moreover, the changes the Commission has made to the lease arrangement, as discussed in this Final Decision, provide further protection to ratepayers." On Page 62, while addressing the concern that ratepayers may be forced to pay for excess capacity, the Commission stated, "One means of protecting ratepayers that WEC can consider is the sale of these ownership shares to another entity." We urge the Commission to act to protect ratepayers.

There is a difference between reserve capacity and excess capacity. I believe WEPCO is well within the excess capacity range. Mr. Rogers stated "The utility will often try to balance the cost of reserves against their customer's outage cost in order to provide the reliability which the customers wish and are willing to pay for." (Rogers response to 1-MMSD/Int-4). We believe WEPCO has overbuilt beyond this balance point and that this excess capacity cost reflected in Charter Steel's rates is unreasonable.

In summary, we do not believe the need for additional capacity or environmental compliance justifies WEPCO's excessively high cost of power. And, we do not believe waiting passively for other states to catch up is a prudent strategy.

Q. Does this conclude your surrebuttal testimony?

A. Yes it does.